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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 6/12/84 **Number:** 169009CA **Due By:** _____

Subject: Cabinet Council on Economic Affairs - June 14, 1984

TOPICS: 1. GNP Estimates

8:45 a.m. - Roosevelt Room

2. Finan. Cond. of Utilities

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Mc Farlane	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Svahn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
<u>CIA</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Simmons	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
			CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
			CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

The Cabinet Council on Economic Affairs will meet on Thursday, June 14, 1984 at 8:45 a.m. in the Roosevelt Room.

The agenda and background papers are attached.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☐ Katherine Anderson
☒ Tom Gibson
Associate Director
Office of Cabinet Affairs
456-2800

☐ Don Clarey
☐ Larry Herbolsheimer



L-300B

THE WHITE HOUSE
WASHINGTON

June 12, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*
SUBJECT: Agenda and Papers for the June 14 Meeting

The agenda and papers for the June 14 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The Council will consider two agenda items. The first is the public release of the flash GNP estimates. In response to the Council's request, Sidney Jones, Under Secretary of Commerce for Economic Affairs, has prepared a paper on the "Public Release of the Flash (-15 Day) GNP Estimates" outlining the arguments in favor and against releasing the flash estimates. A copy of his memorandum is attached.

The second agenda item is a report from the Working Group on the Financial Condition of Utilities. When the working group last reported to the Cabinet Council on May 3, the Department of Agriculture requested the Working Group to develop policy guidance on how the Rural Electrification Administration should handle loan guarantee requests for financing plant construction projects experiencing financial difficulties. The Working Group has subsequently held several meetings to discuss these guidelines. A memorandum from Assistant Secretary of the Treasury for Domestic Finance Thomas Healey, chairman of the Working Group, on this issue is attached.

Attachments

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

June 14, 1984

8:45 a.m.

Roosevelt Room

AGENDA

1. Public Release of the Flash GNP Estimates (CM # 478)
2. Report of the Working Group on Financial Condition of Utilities (CM # 468)



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Economic Affairs
Washington, D.C. 20230

April 12, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS.

FROM: *Sidney L. Jones*
Sidney L. Jones
Under Secretary for Economic Affairs

SUBJECT: Public Release of the Flash (-15 Day) GNP Estimates

- I. The Bureau of Economic Analysis (BEA) prepares an estimate of quarterly GNP results fifteen days prior to the end of each calendar quarter (-15 day figure). These estimates depend upon information available for the first month of the quarter for several series (merchandise exports and imports, nonfarm business inventories, shipments of business equipment, nonresidential construction put in place, value of residential construction, and consumer prices) and for the first two months of the quarter for other categories (retail sales, unit auto sales, and aircraft sales). The BEA estimates values for the other months. Fifteen days following the end of each quarter a preliminary estimate of the quarterly GNP is released (+15 day figure). Subsequent revisions occur 45 and 75 days after the end of each quarter, each July for the preceding three years, and as part of major benchmark revisions.

The flash estimates were originally distributed by the BEA on a restricted basis to assist government officials in preparing economic analyses, forecasts, and policies. During the 1970s the flash estimates were frequently published by the media despite the classified status of the figures. By the late 1970s, Administration officials released the flash estimates to the media to improve the interpretation of the data made available by unknown sources. The current practice is to issue an official press release containing four figures: current-dollar GNP; real GNP (1972 dollars); GNP fixed-weighted price index; and GNP implicit price deflator. The press release also includes a discussion of developments within each major category of the GNP accounts, but specific values are not published. This analysis evaluates the advantages and disadvantages of the existing procedures.

- II. Arguments in favor of releasing the flash estimates.
 - A. The estimates are useful to other government officials. The estimates serve as early-warning

signals to identify important economic developments, particularly cyclical turning points. They are also a beginning point for the preparation of economic assumptions used in the Executive Office budgets and the Economic Report of the President. Since these analyses must be prepared for internal uses, it is unrealistic to assume that they will not be made available to external interest groups and the media.

B. The estimates are widely used by private economists. The flash estimates have become the benchmark for the "rolling forecasts" prepared by private economists. I have surveyed 48 private economists and found that 39 favor the current practice of releasing the flash estimates to the general public.

C. The estimates have a good record comparable with the preliminary figures released 15 days after the end of each calendar quarter. The attached table analyzes the reliability of the various GNP estimates. The statistical revisions of the flash figure (-15 days) for the real GNP (2.0 percent average revision without regard to sign) match the preliminary GNP results (+15 days) and are only slightly larger than the adjustments of the revised estimates prepared +45 and +75 days after the quarter ends. The record for the flash GNP implicit price deflator is also very similar. In discussing the accuracy of the flash estimates, Dr. George Jaszi, the respected Director of the Bureau of Economic Analysis, argues that they are as good as the preliminary estimates and good in an absolute sense:

....even though they lack precision, they are usually solid enough to give a correct indication of the direction in which aggregate economic activity is moving and whether the change is large or small. Of equal importance, they show the major factors that are responsible for changes and their relative importance.

D. The preparation of the preliminary (+15 day) and revised (+45 and +75 day) GNP estimates benefit from the preliminary work done in preparing the flash estimates.

- E. The longer-term economic forecasts prepared by the BEA are improved by using the flash estimates as a beginning point. The availability of the flash estimates is also helpful in preparing special analyses, such as BEA's recent paper on the economic effects of a possible depreciation of the value of the U.S. dollar.
- F. Elimination of the BEA flash estimates would lead to inferior substitutes. The experience of two decades of preparing the flash estimates and its overall expertise in developing the national income and product accounts give the BEA a major comparative advantage. Since economic forecasts will always be demanded by public and private officials, it is beneficial to rely on the most reliable source. Elimination of the flash estimates would likely lead to the publication of similar estimates by private organizations that charge fees and limit their services to specific customers.
- G. Even if the existing flash estimates could be eliminated, it would still be necessary to prepare ad hoc studies to assist in budget exercises and preparation of the Economic Report of the President. Ad hoc preparation would be inefficient because it is more difficult to shift resources in the short run than in the long run.
- H. Politicization charges would be made if ad hoc flash estimates are prepared on an irregular basis. For example, an unscheduled publication of flash estimates that support the interests of an incumbent administration would create skepticism. Equal suspicions would develop if a potentially damaging analysis is suppressed. These issues become even more contentious during an election year.
- I. The informal release system of the late 1970s and the official press release procedures now used have become institutionalized. Any effort to eliminate the flash estimates would generate considerable criticism from professional economists, other government agencies, and the media.

III. Arguments against releasing the flash estimates.

- A. The tentative nature of the estimates, based on only one or two months of preliminary information, is too often ignored or underrated because of the overall credibility of the statistical programs directed by the BEA. The general public and unsophisticated

private analysts often fail to understand the tentative characteristics of the flash estimates. The revised figures rarely receive the same recognition. The advantages of early warning signals can become the disadvantages of premature or false signs. The professional staff responsible for preparing the statistics is properly aware of their inherent limitations and appropriate warnings about potential revisions are always included in the press releases, but these careful disclaimers are frequently ignored during the rush to offer instantaneous analyses of the most complex subjects. Since most of the instant experts do not have access to the background information and procedures used by the BEA, the quality of analysis is frequently disappointing. The resulting frustration when subsequent revisions are made creates unfortunate skepticism about the entire Federal statistics program. All economic statistics are subject to major revisions, especially the flash estimates prepared prior to the completion of the period being analyzed. Nevertheless, an overwhelming majority of analysts prefer the early release of estimated figures and economic forecasting, particularly the use of large econometric models, has become the centerpiece of the economics profession.

- B. Termination of the flash estimates would save human and financial resources for allocation to other statistical activities. Officials of the BEA argue that any savings of analytical resources would be moderate for two reasons. First, the same resources would continue to be required for the preparation of the monthly personal income and outlay figures and for the +75 day GNP estimates, which are prepared at the same time as the flash estimates. Second, additional resources would have to be shifted to the ensuing preliminary (+15 day) estimates to maintain their quality.

For example, aberrations in the source data usually give rise to difficult estimating problems, and an effort to devise methodologies to deal with them must be made. These aberrations often can be identified while the flash estimates are being prepared. If the early calculations are terminated, the aberrations will not be identified until one month later, and it will be impossible to deal with them adequately and in a timely manner unless resources are transferred to the preparation of the preliminary estimates.

C. Termination of the flash estimates would remove the risk of having the figures leaked prematurely and would eliminate efforts to obtain the GNP sector details that are not released to the public. This observation is valid in a superficial sense. The correct solution to the premature release of statistics, however, is not to eliminate their preparation, but is to prepare and distribute them properly. Considerable effort has gone into revising and monitoring the procedures for the release of statistics and this issue does not appear to be a problem at this time.

II. Summary. My long-term personal preference has been to avoid the public release of the flash GNP figures because of the tentative nature of the estimates and the difficulty of interpreting the probable significance of the values estimated before the relevant time period is actually completed. Nevertheless, the arguments of the professional staff of the BEA responsible for preparing the figures, and the overwhelming majority of other government officials and private economists, are persuasive and should take precedence over my bias against the general trend toward accelerating the release times of economic statistics. The apparent tradeoff between striving for earlier releases of economic statistics and waiting for more complete information is consistently decided in favor of accelerating the schedule. There is an advantage to this approach if cyclical turning points can be identified and necessary policy adjustments are completed in time to stabilize the transition. Another persuasive argument is based on the professional claim that the overall quality of the GNP statistics is eventually improved by preparing the preliminary estimates despite the sequence of revisions that must be completed. Finally, an overwhelming majority of government officials and private analysts favor the continued preparation and public distribution of the flash GNP estimates. Therefore, I recommend that the existing procedures be continued.

Attachment

Attachment

Reliability of the Estimates

For each quarter, there is a sequence of estimates for GNP. The flash estimates, such as shown in this release, are issued before the end of the quarter and are based on source data generally for the first month of the quarter and projections for the remaining months. As more comprehensive and revised data become available, additional GNP estimates are released. The preliminary estimates are based on data for most of the quarter and are released in the first month after the end of the quarter. The first and second revisions are released in the following 2 months. The GNP estimates also are revised in each of the following 3 years, usually in the month of July, and in comprehensive (benchmark) revisions, usually every 5 years.

The table below provides summary measures of the amount of revision in past years in quarterly percent changes in current-dollar GNP, real GNP, and the GNP implicit price deflator. These measures provide some guidelines in assessing the likely size of the revisions in estimates for the current quarter. For example, two-thirds of the revisions between the quarterly change in the flash estimate of real GNP and that in the latest estimate has been within a range of -1.0 to +3.8 percentage points. Thus, based on past experience, it is likely that the first-quarter change in real GNP, now estimated at 7.2 percent at an annual rate, will not be revised below 6.2 or above 11.0 percent.

Revision in Quarter-to-Quarter Percent Changes at Annual Rate

Quarterly estimate	Average with- out regard to sign	Range	
		Two thirds of Revisions	Nine-tenths of Revisions
Current-dollar GNP			
Flash	2.3	-1.4 to 3.9	-2.7 to 6.1
Preliminary	2.1	-1.0 to 3.5	-3.1 to 5.1
First revision	1.7	-1.0 to 2.5	-2.3 to 3.8
Second revision	1.7	-1.4 to 1.9	-2.4 to 3.2
Real (constant-dollar) GNP			
Flash	2.0	-1.0 to 3.8	-2.5 to 5.0
Preliminary	2.0	-1.6 to 3.0	-2.4 to 4.7
First revision	1.7	-1.2 to 2.7	-2.3 to 4.1
Second revision	1.7	-1.7 to 2.1	-2.5 to 3.5
GNP implicit price deflator			
Flash	.9	-.5 to 1.0	-1.6 to 2.5
Preliminary	.8	-.6 to 1.0	-1.3 to 2.1
First revision	.8	-.9 to 1.1	-1.3 to 1.7
Second revision	.8	-.6 to 1.0	-1.3 to 1.8



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Thomas J. Healey *TJH*

SUBJECT: Policy Guidance for the Rural Electrification Administration on Loan Guarantees for Cooperatives Involved in Generation Projects

The Working Group on the Financial Condition of Utilities has worked to develop a set of guidelines for the issuance by the REA of commitments and advances of loan guarantees to cooperatives involved in the construction of generation plants, and now needs CCEA guidance on the final shape of those guidelines.

The attached statement titled "REA Policy on Generation Projects" (Attachment A) is the most recent draft of the guidelines based on extensive discussions during and subsequent to meetings of the Working Group. All of the members of the Working Group except OMB had indicated that they could accept the statement.

In view of the position taken by OMB (Attachment B), which would make the guidelines more restrictive, Agriculture and Energy have indicated that their preference would be to modify the Working Group draft to limit it to the issues agreed upon at the May 20th meeting at which the Seabrook arrangement was discussed (Attachment C).

The attached options for the guidelines are presented for your consideration. The first is the Working Group draft of June 12. The second shows the amendments to that draft proposed by OMB. The third shows the amendments supported by Agriculture and Energy.

Attachments

ATTACHMENT A

WORKING GROUP DRAFT: REA POLICY ON GENERATION PROJECTS

The CCEA has agreed to the following guidelines for REA policy on (i) the issuance of loan guarantee commitments in connection with a project ("Commitments") and (ii) advances of guarantees to cooperatives for periodic funding of projects ("Advances").

- (1) Any change in the terms of the participation of a cooperative in a project will neither be nor be construed as a "bailout," and will not set a precedent for additional REA participation in other projects.
- (2) Prior to each Advance, REA will make a finding that the project continues to satisfy the following criteria:
 - (a) the cooperative continues to project an adequate market for the power to be generated by the project, and
 - (b) the project will provide a cost-effective source of incremental power to the cooperative.
- (3) If necessary, as in the event of a restructuring of a project, the REA will work constructively with its cooperative(s) and the other participants in a project to develop a financing package that will allow completion of an economically viable plant. Standard REA procedures will apply unless the restructuring involves a change in the participation of a cooperative that:
 - (a) goes beyond "marching in lockstep" with the other participants, or
 - (b) involves an increase in Commitments.

In such event, before approving any modification in the Commitments and Advances required by any such change in the participation of a cooperative, the REA will make a finding that there is adequate assurance of repayment of Federal and Federally guaranteed debt. This finding will specifically indicate that adequate assurance of repayment is available even in the event of (i) the bankruptcy of a major participant, or (ii) refusal of a cognizant public utility commission to approve higher rates as a source of repayment. Agriculture will consult with and seek the guidance of the Department of Justice in ensuring compliance with this guideline.

- (4) Exceptions to these guidelines will be referred to the CCEA Working Group on the Financial Condition of Utilities for review.

SL#81: June 12, 1984

ATTACHMENT B

OMB PROPOSAL: REA POLICY ON GENERATION PROJECTS

The CCEA has agreed to the following guidelines for REA policy on (i) the issuance of loan guarantee commitments in connection with a project ("Commitments") and (ii) advances of guarantees to cooperatives for periodic funding of projects ("Advances").

- (1) Any change in the terms of the participation of a cooperative in a project will neither be nor be construed as a "bailout," and will not set a precedent for additional REA participation in other projects.
- (2) Prior to each Advance, REA will make a finding that the project continues to satisfy the following criteria:
 - (a) the cooperative continues to project an adequate market for the power to be generated by the project, and
 - (b) the project will provide a cost-effective source of incremental power to the cooperative.
- (3) If necessary, as in the event of a restructuring of a project, the REA will work constructively with its cooperative(s) and the other participants in a project to develop a financing package that will allow completion of an economically viable plant. Standard REA procedures will apply unless the restructuring involves a change in the participation of a cooperative that:
 - (a) goes beyond "marching in lockstep" with the other participants, or
 - (b) involves an increase in Commitments.

In such event, before approving any modification in the Commitments and Advances required by any such change in the participation of a cooperative, the REA will seek the advice and prior approval of the CCEA Working Group on the Financial Condition of Utilities.

* * *

NOTE: Underlining indicates addition to Working Group draft; asterisks denote deletions.

SL#81: June 12, 1984

ATTACHMENT C

USDA/DOE PROPOSAL: REA POLICY ON GENERATION PROJECTS

The CCEA has agreed to the following guidelines for REA policy on (i) the issuance of loan guarantee commitments in connection with a project ("Commitments") and (ii) advances of guarantees to cooperatives for periodic funding of projects ("Advances").

- (1) Any change in the terms of the participation of a cooperative in a project beyond "marching in lockstep with other plant participants" will neither be nor be construed as a "bailout," and will not set a precedent for additional REA participation in other projects.

* * *

- (2) [(3)] If necessary, as in the event of a restructuring of a project, the REA will work constructively with its cooperative(s) and the other participants in a project to develop a financing package that will allow completion of an economically viable plant.

* * *

[In such event] Before approving any modification in the Commitments and Advances required by any [such] change in the participation of a cooperative, the REA will make a finding that there is adequate assurance of repayment of Federal and Federally guaranteed debt. This finding will specifically indicate that adequate assurance of repayment is available even in the event of (i) the bankruptcy of a major participant, or (ii) refusal of a cognizant public utility commission to approve higher rates as a source of repayment. Agriculture will consult with and seek the guidance of the Department of Justice and Treasury in ensuring compliance with this guideline.

* * *

NOTE: Underlining indicates addition to Working Group draft; asterisks and brackets denote deletions.

SL#81: June 12, 1984